

STATE OF WASHINGTON



**OFFICE OF
INSURANCE COMMISSIONER**

REPORT OF

TARGET MARKET CONDUCT EXAMINATION

OF

MINNESOTA LIFE INSURANCE COMPANY

(Formerly Known As Minnesota Mutual Life Insurance Company)

ST. PAUL, MINNESOTA

AS OF

DECEMBER 31, 1996

February 11, 2000

The Honorable Deborah Senn
Washington Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010, I have examined the corporate affairs and market conduct of:

Minnesota Life Insurance Company

(Formerly Known As Minnesota Mutual Life Insurance Company)

St. Paul, Minnesota

hereafter referred to as "the Company" or "MMLIC" or "MML". The following report is respectfully submitted.

Scope of Examination

The examination was performed in compliance with the provisions of Washington insurance laws and regulations. The market conduct review followed the rules and procedures promulgated by the Office of the Insurance Commissioner (OIC) and the National Association of Insurance Commissioners (NAIC). The examination covered the period of January 1, 1992 through December 31, 1996. The scope of this examination was limited to Marketing and Sales Practices, Complaint Handling and Replacement Activity.

TABLE OF CONTENTS

PAGE	
2	Salutation
4	Examination Report Certification
5	Foreword
6	History of the Company
7	Marketing Plan
8	Advertising

	Agent Activity
10	Agent Marketing & Training Bulletins
11	Audits
11	Agent Training Material
12	Agent Contracts
12	Agent Disciplinary Procedures
13	Agent Licensing & Appointments
14	Complaints
16	Replacement Procedures
20	Policy File Review
20	Disciplinary Actions by Other States
22	Summary
23	Instructions
24	Recommendations
25	Appendices

EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Leslie Krier and Alan A. Hudina, who participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

FOREWORD

This target market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington and WAC refers to the Washington Administrative Code.

SCOPE

SITUS

This examination was a Level Two Target Market Conduct Examination conducted off site.

TIME FRAME

The examination covered the company's operations for the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general the sample for each test utilized in this examination falls within the following guidelines:

92% Confidence Level

+/- 5% Tolerance

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard for agent licensing and appointment is not met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards that look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

HISTORY OF THE COMPANY

TERRITORY OF OPERATIONS

MANAGEMENT

The Minnesota Mutual Life Insurance Company (MMLIC) was admitted to the State of Washington on March 1, 1921. It was originally organized as an assessment company in 1880 under the name Banker's Life Association. The present name was adopted in 1901 when Banker's Life Association became a mutual legal reserve company.

MMLIC is licensed for life and disability insurance in Washington and has authority for annuity products. Their taxable premium volume in 1996 in Washington was \$3,592,636. As of the examination date they had 427 agents appointed in Washington.

The company is licensed in the District of Columbia, Puerto Rico and all states except New York. The company is also licensed in Canada and is a licensed reinsurer in New York.

A Board of Directors governs the company. The members are:

Anthony L. Andersen

Robert L. Senkler

Leslie S. Biller

Michael E. Shannon

John F. Grundhofer

William N. Westhoff

Robert E. Hunstad

Frederick T. Weyerhaeuser

Dennis E. Prohofsky

For operations in the State of Washington, the Company's administrative records are located in St. Paul, Minnesota. Policy record files are kept in paper form for several months before being converted to microfiche. The majority of their policy administration records are processed and stored on a variety of application systems, the majority of which are run on an IBM mainframe which is located in St. Paul, Minnesota.

Subsequent Event: Early in 1998, the Company announced its intention to convert from a mutual insurer to a stock life insurance company. The Company changed their name to Minnesota Life Insurance Company on October 1, 1998, wholly owned by a mutual insurance holding company.

Affiliates and Subsidiary Companies

Minister's Life Insurance Company is a wholly owned subsidiary of Minnesota Mutual Life. Minister's Life is located in St. Paul, Minnesota. They were admitted to Washington on May 17, 1982 and are licensed for life and disability products. At year-end 1996, Minister's Life had two individual term life policies in force in Washington. The company is no longer actively marketing Minister's Life business in this state. Based upon this information, Minister's Life will be excluded from this examination.

MARKETING PLAN

MMLIC did not have a written marketing plan prior to 1995. A review of their "Goals and Plans for 1995" as well as for 1996 did not indicate references to vanishing premium policies, replacement programs or any non-compliant marketing practices.

Under the Risks and Challenges section of the 1995 Goals and Plans, the company states "The 1995 plans include the continuation of proactive and preventative measures for all business units to insure that we have sound sales practices in place which minimizes the risks created by this extremely difficult problem." The problem referenced was the "increased level of publicity the insurance industry has recently received regarding sales practices and the increasing punitive sanctions regulators are imposing for violations...". The Company was asked to provide the specifics of its "continuing proactive and preventative measures." The Company's response indicated the following actions:

- In 1994, home office associates gave the SMART Team/Sales Practices presentation to their Portland General Agent (who had Washington supervisory duties) and to the Spokane Office. Topics included pointing out changes in the industry environment and sharing specific examples of how an agent could unintentionally misrepresent himself. Specific examples included which terms were appropriate and which terms could be misleading.
- The marketing compliance video "Fair, Honest and Accurate" was created and sent to each General Agent as well as a hard copy of the text for reference. The hard copy text was reviewed.
- To help communicate the Company's philosophy, the Company created and distributed a brochure entitled "Market Conduct That Excels." This brochure references general philosophies related to professionalism, public confidence and agency growth.
- The Company was preparing for Insurance Marketplace Standards Association (IMSA) membership and an audit by KPMG Pete Marwick, LLP (KPMG) was completed in October of 1997. While the KPMG audit is outside the time frame of this exam, the Company states that its preparatory work was being done during the examination period. A copy

of the IMSA audit report by KPMG was requested and reviewed. The report rendered the opinion that the Company's policies and practices met IMSA standards.

In the Company's "1996 Goals and Plans," the Company again reaffirms its position by stating "...our 1996 plans include the continuation of proactive and preventative measures for all business units to ensure that we have sound sales practices in place which minimize potential problems." No practices were found that would conflict with the stated policy and objective.

STANDARD 1 - The Company's marketing plan contains no references to vanishing premium policies, replacement programs, exchange programs, nor other indicators of possible churning activities.

RESULT: The Company meets this standard.

ADVERTISING FILE/ILLUSTRATIONS

Advertising

The Company's advertising file was reviewed pursuant to WAC 284-23-090. The advertising file contained copies of all advertising materials as statutorily defined. Numerous materials, both for agent use only and those for public dissemination were reviewed for compliance.

Items from the advertising file were chosen for review based upon their perceived relevance to the scope of this exam. We reviewed booklet F.40558, "The Total Integrated Selling System – Agent Guide to Adjustable Survivorship Life." The purpose of this booklet is to train agents in ways to market this product. However, the booklet does contain illustrations and examples that an agent could use when selling the product. The Company has stated that the only purpose of this booklet is to train the agent. As such, the Company did not intend that the materials in the booklet be disseminated to the public. However, they do not include any instructions in the booklet stating that it is intended for agent use only. The booklet contains a section that shows agents how to run illustrations comparing MML Adjustable Survivorship Life (ASL) policies with other company's products. This section uses an interest rate that is higher than the one in effect for the ASL policy. If the agent used this illustration in his sales presentation to compare the ASL policy to other companies, it would mislead the prospective insured to believe that the interest rate for the ASL policy was higher than the actual rate. This could be misleading to the consumer. However, we did not find any instances where this occurred.

The examiner also found that while the full company name is listed on the cover of the booklet, the address of the home office is missing. The Company feels that because the address appears on application copies in the booklet, that the address on the cover is not

required. The intent of having the address appear next to the company name is to have proper identification prominently displayed for any person handling the advertising materials. By having the address showing on the pages of the booklet, on sample application forms, the Company has not prominently displayed the address. The Company is in violation of WAC 284-23-060(1).

The Company does not allow agents under any circumstances to publish anything concerning the policies or the business of the Company, or of any other company, or to advertise or issue circulars of any kind, unless first submitted to, approved and authorized by the Company in writing. Additionally, any item not obtained through the Company must be approved in advance

by the Company prior to use. During the exam period, the Company did not audit agent offices to determine if the agents followed this Company directive.

Subsequent Event: The Company states that subsequent to the examination, they began including an audit of training materials in their broker dealer field audits.

Illustrations

We ran and reviewed a number of illustrations using the illustration software supplied by the Company. The software does not allow creation of two tiered or bonus interest illustrations. There were adequate disclaimers relative to projected and illustrative values and the guaranteed versus projected values were adequately identified.

After running numerous illustrations, we found the following:

- The agents could utilize any interest rate included on a pull down interest rate menu. The Company was queried on this issue and they responded "This capability is a part of all the Adjustable and VAL Software. The software they (agents) received was prior to the NAIC Model Regulation. We had the capability of running a maximum of 9% on Adjustable products and 12% on VAL. We only guaranteed 4% for Adjustable. There are no guaranteed rates for VAL except in the GPA Account. Currently, with the NAIC Model Regulation, illustrations provided to the clients in those states that have adopted the regulation cannot be run at an interest rate higher than that what [sic] we are currently paying. Also the agent had the ability to run in force ledgers. We limit the maximum interest rate on Adjustable for all states to the current interest rate." It should be noted that the input screens on the older, exam period software did not allow states to be input.
- The edit fields only allowed changes of name, address, plan applied for, etc.
- The illustration could not be changed.

- Interest rates different than those on the pull down menu could not be input.
- Utilizing the print command for the illustration and then returning to edit the interest rate to a rate not on the pull down menu is not allowed.

Subsequent Event: The Company began requiring the illustration be submitted with the application effective January 1997 for all states that had adopted the NAIC Model Illustration Regulation.

STANDARD 2 – All agent or vendor produced training materials are controlled by the Company and the Company actively audits use of these materials.

RESULT: As the Company does not actively audit use of these materials, the Company does not meet this standard.

STANDARD 3 – The advertising file contains copies of all advertising material as statutorily defined, including copies of agent created advertising material, WAC 284-23-090 and WAC 284-23-020.

RESULT: The Company meets this standard.

STANDARD 4 – Advertising materials comply with Washington Advertising Regulations, WAC 284-23-010 through WAC 284-23-080.

Number of advertisements	1527
Number of advertisements reviewed	39
Number in violation	1
Percent in violation	2.6 % (within 5% tolerance)

RESULT: The Company meets this standard.

AGENT ACTIVITY

Agent Marketing and Training Bulletins

We reviewed agent marketing and training material. There were approximately 520 individual pieces on the listing provided by the Company, which comprised their advertising file. Of the 520 pieces 39 were chosen for review based upon their relevance to the scope of the examination.

In the material reviewed, there were no references relative to non-compliant marketing practices. As specifically relates to replacement, there were numerous cautionary statements made. For example, the Executive Summary in the 1996 Mission Statement

(F49002) states, "In response to the replacement frenzy of the 1980's, we established a strong anti-replacement policy and created a program to allow existing policyholders to rollover to new more flexible products without incurring new acquisition costs." Additionally, from the Single Premium Adjustable Life Manual (MM096424) created in May 1987 but still in use during the exam period, under the section headed "What Are The Sources of Money Used to Purchase SPAL?" the following is stated, "Replacements should not go beyond being incidental to an agents total sales. Replacement should not be the focus of agents. Replacement should occur only after full disclosure to a fully informed buyer." A later section of this report entitled "Replacement Practices" reviews specific case histories for consistency with the Company's stated policy.

Several publications mention vanishing premiums. In the "Agents Guide to Adjustable Survivorship Life" and in the "Competitive Marketing Unit Guide", references include informing the client that "even if a company illustrates its current term rates, it could experience higher

mortality over time. You should discuss these dangers with your client. The effects of the premium payment plan could be devastating..." There is no evidence that the Company monitored agent activity in this area.

STANDARD 5 - Agent communications do not encourage replacement of existing internal or external policies, special funding programs or other indicators of churning activity.

RESULT: The Company meets this standard.

Audits

The Company advises that the only audits completed in Washington during the exam period were the annual broker dealer reviews. Although these audits focused on securities issues, there was some overlap into insurance practices. These were completed in 1995 and 1996 on the Mulder Agency, which was MML's largest agency in Washington during the exam period. There were no significant findings.

The only agency office visits were done in July, September and October of 1992 and April and August of 1993 at the Murdock Agency located in Tacoma, Washington. The notes of these visits were reviewed and their main focus was on sales and sales quotas. The Company states that "there are no set home office procedures for an agency visit." There is a Field Management Checklist for agency visits, which was created in 1995. This form focuses on sales practices, advertising material and compliance.

The Company formed a Marketing and Administrative Training program in 1995; however, they made no trips to Washington for training during the exam period. The

Company reports that "Washington agents may have received training through the Portland office, home office or other communication mediums."

STANDARD 6 – Company conducts regular audits of agent activities through regular branch or agency office audits and visits.

RESULT: The Company does not meet this standard.

Agent Training Materials

Included in the advertising material were numerous agent training materials. We were informed that the quarterly publication, The Agenda, constitutes the Company's primary on going training program for agents. Six specific issues were requested and reviewed. The other pieces chosen for review were selected based upon their titles and relevance to the scope of the examination. The review was unremarkable for any problem areas relative to marketing or advertising practices.

STANDARD 7 – Training material for both new and existing agents in use during the examination period comply with Washington Statutes and Regulations, WAC 284-23-010 through WAC 284-23-130.

Total Number of Training Materials	520
Pieces reviewed	46 (8.8%)
Pieces not in compliance	0
Percent not in compliance	0% (within 5% tolerance limit)

RESULT: The Company meets this standard.

Agent Contracts

For the period of the examination, the Company's marketing force was stable with general agents numbering from 81 to 87 nationally. For the State of Washington there were 427 appointed agents. The Company utilizes 5 types of agent contracts. These are: an Agent's Contract, a Developing Agent's Contract, a Full Time Agent's Contract, a General Agent's Contract and a Developing General Agent's Contract. There are 2 types of bonuses available that apply to each of the above referenced contract forms. These bonus types are a Production Bonus and a Quality Bonus. The Production Bonus is dependent upon the volume of submitted business exclusive of internal replacements. The Quality Bonus is dependent upon both a minimum production level and persistency requirements.

Neither the agent's contracts nor their commission schedules contained language or compensation that would tend to encourage internal replacements. Some material

reviewed indicated conversion privileges, one item included a contest entitled Conversion Excursion; however, all conversions require commission adjustments and the Company's internal replacement procedures appear to be an adequate screen against actions not in the best interest of the client.

STANDARD 8 – Agent contracts and commission schedules contain no language that encourages internal replacements.

RESULT: The Company meets this standard.

AGENT DISCIPLINARY ACTIONS

The Company advises that agent oversight in Washington is the responsibility of three (3) General Agents (GA's). The GA's are responsible for agent selection, training and development, supervision, direction and for establishing goals. Company procedures dictate a Field Management visit to each agency at least every 18 months. Based upon the information provided by the Company, they do not conduct regular visits to the agencies in Washington.

The Company further advises that the Marketing and Administrative Training department was formed in 1995. They made no trips to the state of Washington for training during the exam period. The company states "Washington agents may have received training through the Portland Office, home office, or other communication mediums."

When requested to provide a copy of their agent disciplinary procedures the Company responded with a copy of a one page memorandum dated May 12, 1998. This was not a procedural overview, merely a roster of who was to attend what meeting relative to agent investigations. The first of these meetings was held on May 12, 1998. When further questioned relative to agent disciplinary procedures specific to the time period of the examination, the Company responded, "Minnesota Life does not have formal written procedures for agent disciplinary actions."

Subsequent Event: In 2000, the Company began documenting agent disciplinary procedures.

STANDARD 9 – The Company has and follows written procedures for disciplining agents and that actions are documented.

RESULT: The Company does not meet this standard.

AGENT LICENSING/APPOINTMENTS

As the Company's block of business issued in Washington was relatively small (657 life and 697 annuity policies) and a preliminary sample indicated an unusually high number

of non-licensed and or non-appointed agents, all the files were checked via the Company provided data base against the OIC agent system to identify any agent licensing or appointment irregularities. The Company advises that a new computerized licensing system was instituted in 1994 and that prior records were maintained on a manual basis.

In summary, there were 85 policies written by six (6) agents that did not have a Washington license when the application was written. This is a violation of RCW 48.17.060, see Appendix A. There were 101 policies written by six (6) agents who were licensed in Washington but not appointed with Minnesota Mutual Life. This is a violation of RCW 48.17.010, see Appendix B. The preponderance of these agents submitted business through financial institutions.

Of additional note, there were 44 policies on the database provided by the Company where the agent was listed as "Home Office." When the Company was asked to provide additional information, they audited 10 of the 44 files and found 7 of the 10 involved group policyholders that exercised a contractual conversion privilege to convert from group coverage to an individual policy. The remaining 3 policies involved exercising of a contractual rider option.

STANDARD 10 – Agents representing the Company have been appointed and licensed prior to soliciting applications on behalf of the Company, RCW 48.17.010.

Number of agents: 427

Number of Violations (Zero Tolerance):

VIOLATION	#AGENTS	#APPLICATIONS
Not licensed or appointed	6	85
Not appointed	6	101

RESULT: The Company does not meet this standard.

A review of Company records shows that the Company does not immediately notify the OIC when an agent has been terminated. We reviewed 90 terminations. Of the 90, there were 11 terminated agents not reported by the Company within 60 days, see Appendix C. Of these 90 terminations, none were reported for cause.

STANDARD 11 – All agents that have been terminated by the Company have been reported terminated to the OIC.

Number of agents terminated	90
Number of terminations examined	90

RESULT: The Company meets this standard.

COMPLAINTS

There were 2 distinct sets of procedures for handling complaints at the Company. The first set of procedures was effective from 1992 to 1994. The 1992 to 1994 procedures consisted of filling out the Company's Notice of Complaint Form (F.28911 rev. 4-94). This was a five part NCR form with copies to Law, Law Follow-Up, Executive Office, Responder and Route On. The "Route On" copy was used if the complaint was sent to a party who, for whatever reason, did not feel comfortable acting on the complaint. A complaint record was then made in the Corporate Log Book with a follow-up to the responder if no reply was received in 10 days. Once responded to, the complaint was completed and recorded in the Log Book. Complaints were monitored by the Board of Directors' Audit Committee to determine the number of complaints per 100,000 policies. The average number of complaints for 1992 – 1995 was 5 per 100,000 policies.

The second set of procedures was in effect from 1995 to 1996. This set of procedures automated the process by using Rbase and Lotus Notes to research and track the complaint. Follow-up was scheduled by the nature of the complaint. If the complaint was from a state insurance department, follow-up was scheduled for 3 days prior to the due date of the response. If the complaint was from any other source, the follow-up was indicated at "about every two weeks."

A preprinted routing slip was used to direct the complaint to the party designated to handle it. Once a reply was sent, the status of the complaint was then updated on the system to 'closed'.

Beginning in 1995, the automated complaint tracking system also produced a number of summary reports that were the basis for a report produced each January outlining complaint trending for the previous year. These reports are also available on demand for use by the Complaint Log Administrator to track complaint trends.

Subsequent Event: The complaint handling procedure changed for a third time effective in 1997. However, as the change is not of a significant nature and outside the scope of this examination, no further comment will be made.

STANDARD 12 – The Company has and follows written complaint handling procedures.

RESULT: The Company meets this standard.

STANDARD 13 – The Company monitors complaint records for trends, and has a formal procedure for reporting trends to management.

RESULT: The Company meets this standard.

During the exam period, the Company received a total of 51 complaints. Of the 51 complaints, 16 were related to individual life and annuity policies. Policy files were requested and reviewed on 9 cases based upon their relevance to the scope of the examination. Of these 9 cases, 3 were related to dividend performance, 3 were tax-related issues (exclusion ratio, taxes on policy loans, corporate ownership and contributions). The remaining 3 were administrative issues (address changes and requests for in force ledgers). We found that the average resolution time for complaint files is 22 business days. The only complaint to fall outside of the 15-business day time frame was file 1957164V. It required 42 days to review and resolve due to a complicated tax issue. During this time the company was in contact with the complainant and kept him advised as to the progress of the process. Specifically, the OIC was copied by the complainant on their original letter to the Company dated 9/15/94. A copy of the Company's response dated 9/27/94 was sent to the OIC. The OIC requested additional information in a letter dated 9/28/94, which was received by the Company on 10/5/94. The Company's response, which included the resolution sought by the complainant, was dated 10/24/94.

In all cases reviewed, the Company's responses appeared to adequately and fairly deal with the topics of the complaints. In all cases the Company's forms as outlined above were used and their procedures were followed.

STANDARD 14 – The Company responds to OIC complaint within 15 business days (WAC 284-30-650) and shows good faith in resolving complaints within 15 business days.

Total number of complaints	16
Policy files reviewed	9
Number outside of 15 day turnaround	0
Percent outside of 15 day turnaround	0 (within 5% tolerance limit)

RESULT: The Company meets this standard.

REPLACEMENT PRACTICES

Internal replacements are sent to the Policy Owner Services Unit (POSU) Specialist. The Company advises in a memorandum dated December 18, 1998 that they did not have written procedures for the POSU Specialist to follow when processing replacement cases during the exam period. They also state that their current procedures were, in essence, effective for the exam period.

The earliest available replacement procedures were dated 1993. When asked for prior procedures, the Company responded in a memorandum that "Although we do not have a copy of written procedures from 1992, we believe the 1993 procedures are also applicable for 1992."

The Company's current procedures for internal replacements are consistent with WAC 284-23-400 to 485. As there were no documented procedures for the exam period, the Company is in violation of WAC 284-23-450(1) wherein it states "Each insurer shall inform its field representatives or other personnel responsible for compliance with this regulation of the requirements of this regulation."

Current written replacement procedures are as follows: all applications are screened for replacement. If it is deemed an external replacement a Replacement Requirement Chart is consulted to determine the appropriate replacement requirements based upon the state in which the application was signed. If the forms are with the application, a Notice of Replacement of Existing Insurance is sent to the existing company. For replacement applications without replacement forms, an e-mail is sent to the agent to request the forms. If they are not received in a week, a second e-mail is sent to the agent. If the forms are not received after 10 working days the application is returned to the agency. This is in violation of WAC 284-23-455(2)(b) wherein it states that "written communication [to the existing company] shall be made within three working days of the date the application is received in the replacing insurer's home or regional office..."

It should be noted that there is no provision in the Company's replacement procedures that requires an amendment be obtained if the replacement question on the application is left blank. If the applicant's replacement question on the application is left blank when the application is taken and the Company does not amend this to show the correct answer, it is a violation of

WAC 284-23-450(2). This regulation states that a company must "Require with or as part of each completed application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity." If the replacement question on the agents report is left blank it is a violation of WAC 284-23-455(1) which states "Require with or as part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction."

A review of 50 randomly selected annuity policy files indicated 11 were IRA Rollovers/Transfers. This equates to 22% of the statistically representative sample. Because this seems like a high percentage, we asked the company if this was representative of their annuity new business. The Company indicated that although they can't track the number exactly because they don't have a rollover/transfer indicator in their system, they felt that this was a reasonable estimate.

Of the 11 rollover/transfer files reviewed only 1 indicated replacement was involved and replacement forms were provided. The replacement question was answered 'no' on the remaining 10 files and no forms were provided. Of these 11 files, 4 appeared on the company's replacement log. When questioned the company responded that "These customers have already or are often in the process of terminating employment and participation in their 'old' plan. Given the nature of these transactions, the lack of information available on the other plans, and the fact that most of these transactions are not 'solicited' by our agents, rollovers are not treated as insurance replacements; thus, no replacement forms are required." When further questioned as to how the Company knew that the existing annuity was a group annuity and therefore exempt from replacement regulations, the Company responded "we did not have procedures in place to determine if the 'old' contract was group coverage."

Therefore, given that the company considered four (4) of the rollover/transfer files as replacements, (as they entered them on their replacement register) and only 1 of the 4 had the required replacement forms in the file, the other three (3) policies are in violation of WAC 284-23-440(2)(a).

On seven (7) annuity policy files the replacement question is not answered and is a violation of WAC 284-23-440(1)(a).

A review of 50 randomly selected life policy files was conducted. Eleven of the 50 (22%) answered 'yes' to the replacement question on the application. Three (3) of these were not included on the Company's replacement register. This is a violation of WAC 284-23-455(3).

On four (4) policy files, the replacement question on the application was left blank and there is no file documentation that anyone tried to obtain an answer to the question. Without a signed statement by the proposed insured as to whether replacement is involved in these four (4) transactions, these are in violation of WAC 284-23-440(1)(a).

Of the 12 affirmative replacement responses, the replacement forms and the application had matching dates on 11 files. Policy file 1929538 had an application date of 4/1/92 while the replacement forms were dated 5/26/92 in violation of WAC 284-23-440(2)(a).

The Company's replacement log indicates that replacement accounts for 24% of its life business (158 entries on the replacement log with 657 new life policies issued during the exam period). The audit validates this number as it indicates that replacement accounts for approximately 24%. Replacement accounts for approximately 18% of the Company's annuity business, (of the 659 policies written 120 were replacements).

The Company's replacement logs are not cross-referenced to reflect the existing insurer to be replaced. This is a violation of WAC 284-23-455(3) wherein it states, "The

replacing insurer shall maintain ... and a replacement register, cross indexed by replacing agent and existing insurer to be replaced."

On two (2) policy files there were no copies of the required replacement notice to the existing company pursuant to WAC 284-23-440(2)(a).

A review of the policy data files provided by the Company was conducted. The Company stated that they had no files wherein:

1. dividends from the original policy were used to pay premiums on the new policy,
2. paid up additions were surrendered on the original policy, and
3. a non-forfeiture option was exercised on the original policy.

Review of the Company provided data relative to loans, withdrawals and surrenders showed the following:

- One life policyholder had four (4) life policies (6478260, 71181180, 9479090 and 8594240) with varying issue dates but all with the same surrender date of May 4, 1994. He has one new life policy (19991570) with a date of May 13, 1994. The surrender value totaled \$6322.90. The new annual premium was \$4800.00. This transaction did not appear on the Company's replacement log, in violation of WAC 284-23-455(3).
- Another life policyholder surrendered policy 13290000 on October 7, 1992 and had a new life policy (19428410) issued on October 8, 1992. This transaction did not appear on the Company's replacement log, in violation of WAC 284-23-455(3).
- A third life policyholder had a new life policy (20321980) issued on April 4, 1995 and surrendered his existing life policy (9440870) on April 25, 1995. This transaction did not appear on the Company's replacement log, in violation of WAC 284-23-455(3).

For a summary of replacement violations, see Appendix D.

STANDARD 15 – The Company's replacement procedures are in writing and are consistent with the Washington Replacement Regulations.

	WAC 284-23-440(1)(a)	WAC 284-23-455(3)	WAC 284-23-440(2)(a)	WAC 284-23-455(2)(b)	WAC 284-23-455(3)
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# Files Reviewed	22	22	22	22	22
# Violations	11	9	4	2	1

RESULT: The Company fails to meet this standard.

There is a preponderance of annuity replacement activity among 2 agents. Agent 3058-900 sold 44 of the 120 (37%) annuity replacements and agent 3058-245 sold 28 of the 120 (23%). Also significant is the 27% of the company's total life replacement business written by the 2 aforementioned agents (8% and 7%) and agent 3051-071 (11%). The significance of these numbers can better be seen when viewed in context with the total business submitted by these agents.

<u>Agent</u>	<u>Life Apps. Issued</u>	<u>Replacements</u>	<u>%</u>
3058-900	58	13	22
3058-245	18	11	61
3051-071	50	18	36
	<u>Annuity Apps. Issued</u>	<u>Replacements</u>	<u>%</u>
3058-900	72	44	61
3058-245	19	28	147*

*Number skewed by numerous occurrences wherein multiple policies were replaced with one new policy.

Subsequent Event: The Company has redesigned their replacement process for capturing, logging and monitoring replacement transactions. This work is to be implemented in early 2000.

STANDARD 16 – Number of replacements for any one agent in any calendar year should not be significant (<1 per month, combined internal and external replacements).

RESULT: The Company does not meet this standard.

STANDARD 17 – The Company has identified patterns of replacements by individual agents such as moving policies in and out of the Company at regular intervals,

replacements of large blocks of business, moving funds from one policy to another.

RESULT: The Company does not meet this standard.

POLICY FILE REVIEW

The number of Washington policies in force as of 12/31/96 was 3973. The total number of policies issued in Washington from 1/1/92 to 12/31/96 was 1354. From the 1354 issued policies, 100 policy files (50 life and 50 annuity) were selected at random and requested from the Company. The policy files were reviewed with emphasis on the following areas:

- Was the application properly signed by both the applicant/owner and the agent?
- Was the agent appointed by the Company and licensed by the state when the application was signed?
- Was replacement of an existing contract involved and if so was the proper replacement form completed? If an external replacement, was proper notification provided to the existing company?
- Were existing policy values used to pay the premium on the new policy?

The review of policy records did not indicate a pattern of old policies being used to fund new policies. The remaining specific findings of this review are incorporated into the sections of this report entitled Replacement Practices and Agency Licensing/Appointments.

DISCIPLINARY ACTIONS BY OTHER STATES

A review of the disciplinary actions taken by other states within the last 5 years indicates 5 actions. These actions are summarized below.

1. State of Kansas, 1993 – issuance of Notice and Certification of Assumption to Kansas residents prior to state approval, \$352.29 penalty.
2. State of Maryland, 1994 – a market conduct examination revealed violations relative to agent licensing and replacement activity regarding replacement letters and non-compliant dating of replacement notices and not maintaining copies of the notices in the files, total \$7200 penalty.
3. State of Colorado, 1996 – a market conduct examination disclosed alleged failure to maintain loss ratio requirement and an unreasonable delay in resolving the issue, \$6000 penalty.
4. State of Alaska, 1996 – licensing issues pursuant to marketing of optional mortgage insurance through Alaskan financial institutions, \$5000 penalty.

5. State of South Dakota, 1998 – licensing issues relative to use of telemarketing firm which failed to secure the proper licensing and appointments for individuals soliciting insurance, \$7500 penalty.

SUMMARY

Minnesota Mutual Life, through utilization of written marketing plans, formation of a Marketing and Administrative Training Program both instituted in 1995, and newly documented replacement procedures has demonstrated an awareness of the need to monitor business practices and replacement compliance on an on going and managed basis.

Historically, the Company would have gained benefit from an earlier institution of its current practices. Additionally, the Company's automation in 1994 of its agent licensing and appointment system appears to have mitigated the significant numbers of unlicensed and non-appointed agents.

Additionally, annuity business written by two (2) of the Company's agents accounted for 60% of the Company's total annuity replacement activity. The Company did not monitor these business submissions and as such could not have taken any action relative to them.

The Company would now appear to have adequate procedures in place to monitor agent activity. However, having the procedures in place is of little consequence unless the Company takes an active role in their application.

INSTRUCTIONS

1. The Company is in violation of WAC 284-23-060(1) and is instructed to make certain that its full name and home office address are clearly identified on all advertisements. (Page 8).
 2. The Company is in violation of RCW 48.17.060 and is instructed to make certain all agents are licensed with the State of Washington prior to soliciting applications on behalf of the company. (Page 13).
 3. The Company is in violation of RCW 48.17.010 and is instructed to make certain all agents are appointed by the company with the State of Washington prior to soliciting applications on behalf of the Company. (Page 13)
 4. The Company is in violation of Washington Replacement Regulations, WAC 284-23-400 through WAC 284-23-485. They are instructed to change procedures to comply with all sections of the Washington Replacement Regulations.
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RECOMMENDATIONS

1. It is recommended that training and advertising material solely intended for agent use and not for dissemination to the public is prominently identified as such.
2. It is recommended that the Company institute procedures to actively audit use of agent or vendor produced training materials.
3. It is recommended that the Company conduct regular audits of agent activity through regular branch or agency office audits and visits.
4. It is recommended that the Company establish formal written procedures for disciplining agents and that written documentation be maintained of any actions taken.
5. It is recommended that the Company establish a practice of clearly date stamping the application on the day it is received in the home office.
6. It is recommended that the Company monitor its replacement registers for any trends or patterns of replacement by an agent or agency.
7. It is recommended that the Company establish procedures to notify the State in a timely manner when agents are terminated.

APPENDIX A

AGENTS NOT LICENSED OR APPOINTED WHEN APPLICATIONS WERE TAKEN

AGENT NUMBER	# POLICIES	POLICY NUMBERS		
B000671-04-04	20	1218123	1218962	1223022
		1223023	1223025	1223027
		1223928	1223031	1223050
		1223054	1223055	1223113
		1223121	1223122	1223123
		1223124	1223125	1223126
		1223128	1223459	
B000671-13R12	1	1225188		
B000676	1	1219802		
0701-772	2	1258884		

B000671-07	54	1218200	1218558	1318563
		1218665	1218667	1218731
		1218929	1222369	1222379
		1222578	1222617	1222623
		1222638	1223003	1223004
		1223006	1223008	1223136
		1223137	1223138	1223139
		1223140	1223142	1223143
		1223144	1223145	1223151
		1223152	1223153	1223334
		1223335	1223336	1223337
		1223339	1223341	1223343
		1223385	1223386	1223388
		1223391	1223392	1223393
		1223394	1223395	1223397
		1223398	1223404	1223467
		1223496	1223497	1223498
		1226121	1226123	1226125
B000671-20	7	1218210	1218211	1218212
		1218213	1218220	1218222
		1223268		
TOTAL	85			

APPENDIX B

AGENTS WHO WERE NOT APOINT WHEN THE APP WAS TAKEN

AGENT NUMBER	NUMBER OF POLICIES	POLICY NUMBER(S)		
B000671-24	1	1226090		
B000671-12	63	1218003	1218095	1218820
		1218822	1218823	1218826
		1218828	1218840	1222535

		1222536	1222559	1222575
		1222618	1222629	1222636
		1223052	1222060	1223063
		1223065	1223066	1223067
		1223068	1223069	1223071
		1223073	1223193	1223196
		1223197	1223200	1223202
		1223205	1223207	1223212
		1223345	1223346	1223355
		1223357	1223358	1223422
		1223423	1223426	1223427
		1223432	1223433	1223434
		1223435	1223436	1223437
		1223438	1223454	1223458
		1226076	1226078	1226080
		1226081	1226082	1226083
		1226085	1226086	1226088
		1226108	1226109	1226110
B000671-14	28	1218965	1218967	1218968
		1218969	1218970	1218976
		1218978	1218980	1218981
		1218983	1222436	1223090
		1223092	1223094	1223095
		1223096	1223129	1223371
		1223376	1223405	1223408
		1223411	1223413	1223416
		1223419	1223488	1223491
		1223493		
B000671-21	4	1223259	1223290	1223262
		1223407		

B000671-15	4	1223439	1223440	1222602
		1222644		
3086-210	1	19920060		
TOTAL	101			

APPENDIX C						
AGENT TERMINATION and NOTIFICATION TO THE STATE OF WASHINGTON						
	COMPANY		OIC			
AGENT NAME	APPT DATE	TERM. DATE	APPT DATE	EXPIRATION DATE	CANCEL DATE	DAYS TO NOTIFICATION
Centennial Bank FS	9/4/91	3/1/97	9/4/91	3/1/99	6/30/97	120 days
Jirak, Thea D.	12/16/94	2/23/96	5/9/94	3/1/97	3/1/97	>1 year (expir.date)
Johnson, Jeffrey B.	1/5/94	12/7/95	1/5/94	3/1/97	3/1/97	>1 year (expir.date)
Kager, Steven B.	12/16/94	3/30/95	7/13/92	3/1/99	3/1/99	>1 year (expir.date)
MacCallum, Donald B.	1/19/95	3/28/96	1/9/95	3/1/97	11/12/96	180 days
Marling, Robert W.	2/27/96	10/31/96	2/27/96	3/1/97	3/1/97	120 days (expir.date)
Mcalister, Marjorie	12/16/94	10/15/96	3/31/94	3/1/97	3/1/97	120 days (expir.date)
Mendez, Michael A.	6/9/95	3/31/96	5/30/95	3/1/99	3/1/99	>1year (expir.date)
Murdock, Daniel W.	12/16/94	6/24/96	8/17/94	3/1/97	3/1/97	240 days (expir.date)
Oneil, Larry J.	12/16/94	3/1/95	2/27/96	3/1/99	6/15/98	>1 year (expir.date)
Stenhjem, John M.	12/16/94	1/31/96	8/5/93	3/1/97	3/1/97	>1 year (expir.date)

APPENDIX D				
SUMMARY OF REPLACEMENT VIOLATIONS				
# VIOLATIONS	WAC CODE NUMBER	VIOLATION	POLICY NUMBER	
11	284-23-440(1)(a)	Replacement question not answered on app	1223033	1148561
			1222602	1226206

			1142436	1223416
			1223144	1989892
			2072152	20387560
			1963456	
9	284-23-455(3)	Replacement not included on company register	20311470	2063441
			20658980	6478260
			71181180	9479090
			8594240	13290000
			9440870	
4	284-23-440(2)(a)	Replacement form dated after application date	1929538	1136586
			1134057	1334498
2	284-23-455(2)(b)	Copies of notice to replaced company not in file.	20406240	19879090
ALL	284-23-455(3)	Replacement register not cross indexed.		